



Commonwealth of Massachusetts GROUP INSURANCE COMMISSION

FISCAL YEAR 2002 ANNUAL REPORT

COMMONWEALTH OF MASSACHUSETTS

Your
BenefitsConnection
Group Insurance Commission

Group Insurance Commission

The Group Insurance Commission has as its primary mission the provision of high value life, health, and disability insurance to state employees, retirees, and their survivors and dependents. The agency works with vendors selected by competitive bidding processes to offer cost effective services through rigorous plan design and aggressive management. The ultimate performance goal of the Agency is employee satisfaction with the choices provided, the prices paid, and the services delivered.

THE GIC MANAGES THE FOLLOWING PROGRAMS

- ❖ A Diverse Array of Health Insurance Options:
GIC Indemnity Plan, GIC Indemnity Plan PLUS , GIC Indemnity Medicare Extension Plan (OME), Commonwealth PPO, six HMOs and seven Medicare HMOs
- ❖ Basic and Optional Life Insurance
- ❖ Long Term Disability (LTD)
- ❖ GIC Dental/Vision Program for the Legislature and its staff, managers and executive offices
- ❖ Dependent Care Assistance Program (DCAP)
- ❖ Retiree Discount Vision Plan
- ❖ Retiree Dental Plan

See our Benefit Decision Guides for additional details on these programs.

GROUP INSURANCE COMMISSION

Providing Massachusetts State Employees, Retirees, and Their Dependents With Access to Quality Care at a Reasonable Cost

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Dear Friends:

Fiscal Year 2002 has been a year of making connections with other participants in the health care world, in an effort to maintain and improve health care quality, while coping with health care costs. The task has not been an easy one as health care costs have started to spiral upward again with no end in sight. Working with other players has been not just a virtue, but a necessity, as all of us are truly in this together – employers, employees, retirees, hospitals, doctors, and health plans. Even though health care costs went up for all of us, FY02 also saw significant breakthroughs in collaborative efforts to make the product we are buying a better one. The GIC has spent a lot of time and effort with other groups in promoting patients' access to information about their providers – information they need to make good decisions about their care.

I think the hardest task has in fact been accomplished. Both patients and physicians have begun to be sensitive to the costs of medical care. I do not believe that we have yet found the solutions to putting a brake on costs, but we are beginning to ask the right questions. One example is the successful efforts made by the GIC, working with other purchasers, to provide information about hospital safety to our enrollees through the Leapfrog program, a national effort to improve hospital safety by informing patients about how their hospitals measure up on three important safety standards. Another is the extensive expansion of our own web site, enabling our enrollees to learn about the benefits and plans we offer, as well as information about health care issues and linking them, through the miracles of technology, to health information provided from many sources.

None of us are happy about having to raise premiums, copays, and deductibles. But all of us can take pride in our ongoing efforts to be at the forefront of improving health care quality, safety, and communication to all of our enrollees.

On the pages that follow we have spelled out how we spent the taxpayers' money as well as the money contributed by the enrollees themselves. We hope you will read this annual report and will conclude that we have spent the money wisely, prudently, and for the benefit of all the citizens of Massachusetts.

Sincerely,

Dolores L. Mitchell
Executive Director

19 Staniford Street, Boston, Massachusetts 02114-8747

What is the GIC?

The Group Insurance Commission (GIC) is a quasi-independent state agency established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, along with their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, and two additional groups of enrollees, retired municipal teachers (RMTs) and elderly governmental retirees (EGRs). The Governor appoints the eleven members who govern the Commission.

THE GIC'S COMMISSIONERS BRING DIVERSE PERSPECTIVES FOR THE BENEFIT OF ENROLLEES

Commission members' interests and expertise encompass labor and retirees, the public interest, the administration, and health economics. Their points of view are very different as illustrated by their responses to the following question.

"This past year was financially challenging. How do you see your role in helping the Commission preserve its mission of quality care while simultaneously dealing with today's fiscal realities?"



ROBERT W. HUNGATE, CHAIR

"Keeping you, the beneficiary, in control of your health and use of services to improve your health is a key GIC quality improvement tool. All health care is not equally beneficial, but who decides, you, your doctor, the health plan, or the Group Insurance Commission is a value/quality trade-off decision. Your payment is your quality control tool, the Commission's assurance that you received the quality you sought. Keeping both your payments and the Commonwealth's costs manageable while improving your health becomes the core GIC challenge."



RICHARD E. WARING (NAGE), Vice Chair

"Health insurance is critical to maintaining a healthy and productive society. As a Commissioner, I believe that my role is to ensure that the GIC takes all possible steps to maintain the present level of benefits without causing financial harm to our insureds."



SUZANNE BAILEY, Designee for Julianne Bowler, Commissioner of Insurance

"Anticipating the changes in a rapidly evolving marketplace and making adjustments amid ever-rising costs continue to be the big challenges. The quality of benefit plans offered in Massachusetts has never been disputed, but going forward we will need to find inventive ways to contain escalating costs without sacrificing the high quality of care we have enjoyed."



THERON R. BRADLEY

"Our greatest challenge is to preserve the affordability of quality health care for all employees of the Commonwealth and their dependents. The solution will require careful consideration of the products we offer and the cost-sharing between the Commonwealth and the employee that results."



AGNES BUNDY SCANLAN

"My role as Commissioner is to review the materials provided at our board meetings, maintain contact with health care providers so that I am aware of the latest information on this subject, and understand the Commonwealth's current fiscal priorities. With this information in hand, I am better equipped to provide advice and ask questions at board meetings, then cast sound votes on matters of importance to the Commission."



ALFRED A. FONDACARO, JR.

"In these difficult times, it is challenging to provide the quality health care to our active and retired employees of the Commonwealth of Massachusetts. As the Commissioner representing our retirees, I am committed to maintaining the quality health care to all retired employees who worked in service to the residents of Massachusetts for many years of their lives."



DAVID R. HANDY

"The GIC will never abrogate its responsibility in providing the best quality care to the citizens of the Commonwealth. To maintain this standard we must continue to seek innovative alternatives that combine effective care at a fair and reasonable cost."



ANN REALE COLLINS, *Designee for Kevin J. Sullivan, Secretary of Administration and Finance*

"The revenue drop we experienced in Fiscal Year 2002 was the worst in state history. It will take us a long time and a lot of hard work to recover from that and deal with the continued sluggishness of the economy. My role on the Commission will be to help everyone understand that difficult decisions will be necessary across state government to meet the challenges of the Commonwealth's fiscal situation. Despite the tremendous work the Commission has done to contain the growth in our health care costs, the GIC has one of the highest growth rates of any state agency. We need to work together to come up with the best solutions possible to curb that growth further while preserving the quality of care that state employees receive."



JOHN P. WALSH (*Local 254, S.E.I.U., AFL-CIO*)

"As a Commissioner representing unionized state employees, I fought to resist pressures to have the GIC shift financial responsibility from the employer (the Commonwealth) to the employees (the state employees and retirees). Despite our best efforts, the GIC was forced, by outside events, to raise co-pays for various medical services and prescription drug benefits. Although the costs to the employees did increase, the GIC was successful in maintaining its high level of quality for services that it provides to the employees and retirees that it serves."



CHRYSTENE L. ZARAZINSKI (*Council 93, AFSCME, AFL-CIO*)

"I see my role as the representative of employees covered by health plans in the GIC as one of protecting the employee benefits especially during these difficult times. I feel that shifting costs, whether for premiums or out-of-pocket co-pays, to the employees is wrong and should be avoided. I believe the Commission needs to look at creative ways to save money without financially impacting the hard working employees and retirees."



RICHARD J. ZECKHAUSER

"In stringent times, every dollar must be spent to secure maximum benefit. The GIC, both staff and commissioners, are appropriately both tight fisted and warm-hearted. The GIC strives mightily and effectively to promote the health of its participants."

NEW PROGRAMS

Dependent Care Assistance Program (DCAP)

In the fall of 2001, the GIC assumed responsibility for the Dependent Care Assistance Program, a pre-tax benefit for reimbursing employment-related dependent care expenses, primarily childcare. The Human Resources Division previously managed this program.

Retiree Dental and Vision

As part of the FY01 budget, the Legislature authorized the GIC to study the feasibility for a retiree pay-all Dental/Vision Plan. In cooperation with the Retired, State County and Municipal Employees Association of Massachusetts, a survey was developed to explore retiree interest and ability to pay for dental/vision benefits. Response rates were exceptional and retiree interest in a dental/vision program was very strong. However, the survey's estimated monthly dental insurance premiums were found to be unaffordable and carrier interest was low.

After discussing these findings, the GIC negotiated with its vision carrier to offer a discounted eyewear program with deeper discounts than those currently available in the market. This was rolled out in October of 2001. The GIC then used its employee dental plan procurement to increase carrier interest in a voluntary retiree dental plan. This was implemented in July 2002 with over 3,500 retirees enrolling during annual enrollment.

PROCUREMENTS

Long Term Disability

Taking advantage of a highly competitive market, the GIC was able to expand the benefits included in the employee-pay-all Long Term Disability (LTD) Plan, while significantly reducing monthly premiums. Benefits were expanded to include unlimited coverage for partial hospitalization treatment as well as hospitalization for mental health disabilities. The GIC selected CNA Group Benefits as its new carrier for FY03, decreasing premium rates by as much as 56% across all age bands.

As part of the Long Term Disability procurement, the GIC also studied the feasibility of an enrollee pay-all long term care plan, which would cover some of the costs of services needed if the enrollee develops a chronic illness or cognitive impairment. The study found that the projected premiums would undoubtedly be high, limiting the program's appeal to enrollees with salaries or pensions at the higher end of the scale. The study also found that the success of the program would require considerable GIC staff resources and implementation costs, which under the current budgetary constraints was not a realistic possibility. The Commission will conduct focus groups and surveys to pursue future alternatives.

Dental/Vision Plan for the Legislature and Its Staff, Managers, and Executive Offices

Almost 9,000 employees have enrolled in the GIC's Dental/Vision program since its inception in FY96, representing almost 90% of the eligible population. The contract was set to expire at the beginning of FY03, and the GIC went out to bid in FY02. Delta Dental again offered the best value and they were retained for the new contract. To reduce the state's costs, the GIC switched from a fully-insured plan to a self-insured plan, potentially saving the state up to \$750,000 over the three-year contract.

IMPROVING QUALITY

GIC

State Agencies

- ❖ GIC Coordinators at all state agencies
- ❖ Retirement worksheet for the benefit statement
- ❖ Payroll Coordinator meetings
- ❖ End-of-life care
- ❖ Flu article communication

Leapfrog Initiative

Continuing our role as a leader in promoting patient safety, the Commission's HMO contracts include a timeline for gathering, reporting, and communicating hospital data on three key safety measures developed by the Leapfrog Group, a national coalition of large employers and government agencies committed to improving patient safety. The GIC was the first Massachusetts organization to become a member of Leapfrog. In FY02 the Massachusetts Health Care Purchasers Group, Verizon, Fidelity and General Electric also joined, helping to accelerate the push for hospitals to report three safety measures proven to reduce medical mistakes:

- ❖ Use of computerized prescription systems
- ❖ Selection of hospitals with extensive experience for certain high-risk conditions and procedures
- ❖ Staffing intensive care units with board-certified critical care physicians

In the coming years, the GIC will provide incentives to health plans that demonstrate measurable increases in the percentage of admissions to "safety-enhanced" hospitals.

Assisting Enrollees With Their Inpatient Treatment Decisions

In keeping with our mission of providing enrollees with useful and timely health care information, GIC enrollees are now able to conduct their own research about area hospitals by accessing Select Quality Care™ on our web site. Provided by

CIGNA HealthCare, the site includes condition or disease specific hospital comparisons using the following criteria:

- ❖ Number of patients treated
- ❖ Hospital mortality rate for specified illness or procedure
- ❖ Unfavorable outcomes
- ❖ Average number of days spent in the hospital
- ❖ Average hospital charges

This new resource was launched in June 2002. It helps enrollees select the most appropriate hospital given their personal health needs and preferences. The report also generates data on the Leapfrog patient safety standards.

Early Risk Intervention Program

The GIC's Early Risk Intervention Program (ERI) for the PPO continues to help people during its second year. Since its inception, the ERI program has intervened on behalf of over 2,500 people resulting in 977 care changes. Of these, 95 people could have had potentially fatal errors. The program frequently catches lapses in quality, such as no eye exam for a diabetic patient, no cholesterol test for a patient with diabetes and another who survived a heart attack, and no liver test for a patient on cholesterol-lowering drugs. Sometimes there are legitimate reasons for these apparent deviations from best practices, but sometimes there are not. Either way, a timely intervention and inquiry helps.

How does the program work? Cutting edge software reviews members' pharmacy, lab, medical claim information and demographic data. When the software detects inconsistencies with best medical practices, the Commonwealth PPO contacts the member's physician to inform him or her of the potential problems. The bottom line for this innovative program -- PPO members enjoy peace of mind and higher quality care.

Premier Disease Management Program

Since 1999, GIC Indemnity Plan members with a chronic condition — such as diabetes, cancer, chronic pulmonary obstructive disease and congestive heart failure — have been offered enhanced health education and support services through the Premier Program. This program helps high-risk enrollees better manage and improve their health through one-on-one consultations, monitoring patient compliance with treatment plans and connecting members to appropriate providers and resources.

FY02 highlights of this program include:

- ❖ Reduced levels of Hemoglobin A1C and a reduction in emergency room use for diabetes patients
- ❖ Fewer hospital admissions for individuals enrolled in the congestive heart failure care management program
- ❖ Increased compliance with American Heart Association guidelines for enrollees in the acute myocardial infarction (AMI) program



Every year GIC has a holiday giving tree. Staff members contribute gifts to a worthy, child-oriented cause. For the past three years the GIC has selected the Temporary Home for Women and Children, located next to the GIC. GIC staff contribute requested toys and household items. Priscilla Luscombe, a social worker from the Temporary Home for Women and Children, stands next to the giving tree. In the background the GIC's Deputy Director, Bob Johnson, picks a gift request tag off the tree.

GIC

State Agencies

- ❖ Deferred Compensation communication
- ❖ Patient safety
- ❖ Health fairs
- ❖ GIC website



CONTROLLING COSTS

GIC

Plans

- ❖ Telephone
- ❖ E-mail
- ❖ GIC web site
- ❖ Operations meetings
- ❖ HMO site visits

FISCAL CHALLENGES EMERGED

Midway through FY02 state revenues had plummeted \$374 million from the original forecast used to develop the budget. Projections for FY03 were even gloomier. The state was expected to have up to a \$2 billion shortfall for FY03 as a result of the recession, coupled with a sharp decline in both unexpected and planned reductions in tax revenues.

In the meantime, health care costs continued to climb nationwide, with the steepest increase in twelve years. Consumers demanded more choices and less hassles, health care sector wages rose, and the population was aging. Prescription drug costs had double digit increases for the sixth consecutive year, in part caused by direct to consumer advertising. And utilization for health care continued to increase, with expensive procedures, such as MRIs, skyrocketing.

NEGOTIATING POWER

The GIC has consistently kept health care premium increases below both the state and the national averages with its negotiating expertise combined with proactive cost savings measures, some of which are described below. Over the last five years, the GIC's premiums have increased 28.8%. Mercer Human Resource Consulting estimates that Massachusetts' average premium costs have increased 47.8% and the nation's have increased a whopping 55.0%. Applying these percentages, the GIC has saved more than \$109 million over the state trend and more than \$150 million over the national trend.

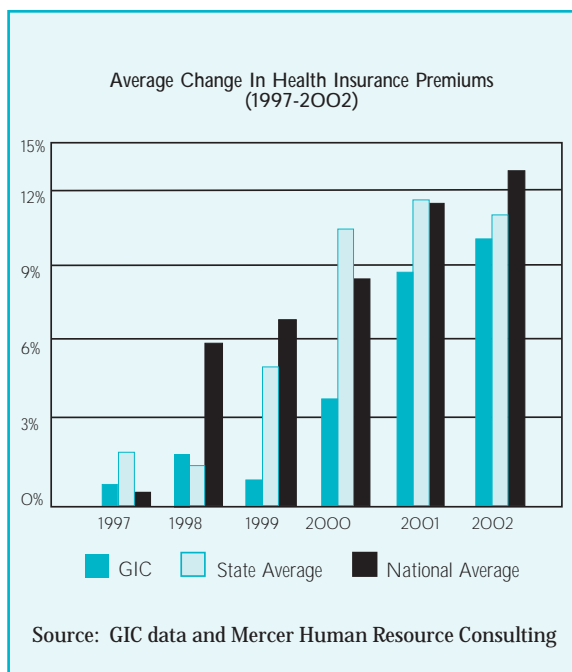
BENEFIT CHANGES

Despite GIC's leverage, our plans came in with increases of ten to fifteen percent for FY03. The House 1A budget gave the GIC a 4.5% increase over FY02, meaning there would be a budget shortfall of 5.5%-10.5%, approximately \$52 million. The GIC had only two options to mitigate the shortfall: increase the premium percentage for all enrollees or increase co-payments and deductibles for users of health care services. The first option would mean the burden was spread across all enrollees. However, it would require legislative action, and the Legislature and unions have strongly and consistently opposed this proposal.

Left with only one real option, the GIC reluctantly voted to increase co-payments for physician office visits, prescription drugs, and emergency room visits. The Commission also added inpatient hospital and outpatient surgery deductibles. These added co-payments and deductibles, primarily affecting non-Medicare patients, saved the Commonwealth approximately \$30 million.

MBRS COST SAVINGS UPDATE

The GIC data revealed that for precisely the same procedure at the same hospital the state was charged vastly more for a patient with Indemnity Plan coverage than for one belonging to an HMO. It became apparent that hospitals and outpatient providers were using the Indemnity Plan to subsidize the dis-



counts they had given to HMOs. As a result, in FY99 the Commission and actuaries from the Indemnity Plan developed a reimbursement schedule that would bring its payments closer to those made by HMOs. The Legislature had earlier passed a law prohibiting providers from balance billing Indemnity Plan subscribers for covered services. For its first three years, MBRS has saved the Commonwealth and insureds an estimated \$102 million. Plan actuaries estimate that it saved another \$43 million in FY02.

OUT-OF-STATE FEE SCHEDULE IMPLEMENTED

The GIC found that out-of-state providers were receiving payments that were significantly higher than the payments received by Massachusetts providers for the same services. Before MBRS, a similar phenomenon was observed in the Commonwealth, one of the highest cost states in the country for medical care. The GIC voted to institute fee schedules for out-of-state providers for FY03 in place of paying providers on a charge basis. To mitigate the impact on enrollees, the GIC voted to offer UniCare's network of providers who would accept the Plan's fee schedules as payment in full.

DISCONTINUED AETNA

The GIC voted to eliminate its newest HMO for FY03, Aetna US HealthCare. The Plan, which had enrolled a very small number of members, proposed rate increases higher than those received from all other HMOs. Aetna was unable or unwilling to negotiate its rates, and the GIC dropped the Plan and facilitated members' switch to other plans.

LTD PREMIUMS REDUCED

As part of its procurement for Long Term Disability (LTD), the GIC was able to negotiate premium savings of as much as 56% across all age bands. This

program is an employee pay-all program, and the reduced premium helped to make the program more attractive for state employees.

RISK ADJUSTMENT ADOPTED FOR ANNUAL ENROLLMENT SHIFTS

Our data revealed that the GIC's health plans had striking cost differences despite their similar benefits. Older and less healthy enrollees tended to enroll in the Indemnity Plan, and younger, healthier enrollees tended to enroll in HMOs. This shift was a major driver of the cost differences among the plans. During FY01, the Commission voted to adopt a risk adjustment payment methodology that adjusts payments to plans after annual enrollment based on shifts in enrollment. The more unhealthy their population, the more plans receive to treat them. Conversely, the healthier the population, the less the plans need to take care of them. In this way, plans are being paid fairly for the population they cover. This approach is expected to increase HMOs' comfort with enrolling older and less healthy enrollees by paying HMOs to cover a population that might have greater health care needs.



Fallon Community Health Plan offers a research area at their health centers. Patients can check out videos, cassettes, and books to find out more about their condition. Lynn Theabeault, librarian of the Leominster center, describes how patients use the facility.

GIC



Plans



- ❖ Commission meetings
- ❖ Implementation meetings
- ❖ Disease Management Program promotion



HOLDING VENDORS ACCOUNTABLE

GIC

Consultants

- ❖ Long Term Disability procurement
- ❖ Long Term Care feasibility study
- ❖ Active Employee Dental Carrier procurement
- ❖ Retiree Dental and Vision feasibility study

HMO SITE VISITS

In addition to regular reporting and data analysis, Commission staff visits with each health plan to gain a more in-depth understanding of the services provided to the Commonwealth's employees and retirees. These site visits allow the GIC to see first-hand the operations of the health plans, discuss with executives and other key HMO personnel the latest developments regarding both their health plan and health plans in general, and enable the GIC to address issues of concern particular to our enrollees.



Sue Cooper, the GIC's EAP Coordinator, Dr. Steve Etkind and Susan Rowan of United Behavioral Health meet with GIC staff on a regular basis to review operations and concerns.

AUDITS

As part of the GIC's ongoing quality improvement efforts, the Commission contracted with Watson Wyatt to conduct an audit of health care claims processing and other management and operational activities conducted by four of our health care vendors:

- ❖ UniCare, which administers the Indemnity Plan;
- ❖ Tufts Health Plan, which manages the PPO plan;
- ❖ Express Scripts, our pharmacy benefits manager; and
- ❖ United Behavioral Health, administrator of the mental health/substance abuse plan.

This third-party assessment of the vendors' performance included an evaluation of the carriers' operational and

administrative policies and procedures, adherence to GIC performance guarantees, a review of claims and case management activities, as well as an analysis of these entities' compliance with HIPAA regulations. The Commission has used -- and will continue to use -- the results of these audits to improve service delivery and to hold our vendors accountable for continued high quality services to the Commonwealth's employees and retirees.

HIPAA COMPLIANCE

With deadlines for meeting the requirements of the Health Insurance Portability and Accountability Act (HIPAA) fast approaching, the GIC has been working on its own internal processes and with our health care providers to ensure compliance with these federal regulations. These regulations are intended to provide reasonable safeguards for the privacy and security of individuals' protected health information. In fiscal 2002, the GIC retained the consulting firm Berry, Dunn, McNeil and Parker to conduct an analysis of the GIC's current processes and the steps the GIC will need to take to comply with HIPAA standards. While this work will continue in fiscal 2003 and 2004, the review of GIC operations indicates that we are well positioned to meet the transaction sets, privacy and security provisions of the federal law.



Dr. Laura Altman, Erin Lenox and Tracy Tanner of Towers Perrin assist GIC staff with the mental health/substance abuse carrier procurement for FYO4

The GIC has become a widely recognized leader in the Massachusetts and national health care communities. Throughout FY02 we continued to enhance our communications to assist enrollees with understanding their benefits, and helping them to take charge of their own health.

Comprehensive Web Site Launched

In September 2001 the GIC launched a comprehensive web site, providing enrollees, GIC Coordinators, and vendors with 24/7 GIC benefit information, links, and news. The site assists enrollees with navigating their benefit options when their life changes, such as when they marry, divorce, have children, retire, leave state service, turn age 65 and are eligible for Medicare and/or need life insurance. Detailed procedures help Coordinators, located at agencies throughout the state, with processing these changes. The addition of GIC forms helped to cut the amount of forms for GIC staff to mail. Health related articles, links and GIC publications are catalogued and are frequently updated to assist enrollees with taking charge of their health. The site averages over 20,000 hits each month.

For Your Benefit

The GIC's quarterly newsletter, *For Your Benefit*, provides active and retired state employees with timely and valuable information on general health care and safety issues, as well as program-specific details. FY02 articles included:

- ❖ Overuse of antibiotics
- ❖ Helping your child manage asthma
- ❖ Incorporating anaerobic exercise into your schedule
- ❖ What to ask before you have surgery

The GIC actively collaborates with plans to promote their disease management programs. Additionally, the GIC initiated cooperative communication efforts with other agencies to reinforce and promote complementary information on programs, such as flu vaccines with the Department of Public Health, and Deferred Compensation with the State Treasurer.

Personalized Benefit Statement

The GIC's annual personalized benefit statements provide enrollees with a com-

prehensive picture of all of the benefits provided by the Commonwealth, including dollar contribution by benefit type. Enrollees can review their benefits and make record corrections. In FY02, the GIC's annual personalized benefit statements were overhauled to a less cluttered format. The Legislature, managers and executive office staff now receive details on their dental/vision program. The optional life insurance smoker status, formerly listed as yes/no, was changed to smoker/non-smoker. The new format worked with triple the number of enrollees calling about their smoker status. The new retiree vision discount program was added to all retiree statements.

HMO Report Card

To assist enrollees with selecting a health plan, the GIC provides an HMO Report Card at its health fairs and on our web site. This report card includes indicators concerning service quality and member satisfaction. Enrollees can compare the GIC's HMO plans across a range of quality care measures, including breast cancer screening, adolescent well visits, and child immunization rates.

Benefit Decision Guides

The GIC's Benefit Decision Guides provide enrollees with a comprehensive guide to their benefit options. The GIC produces two guides - one for active employees, the other for retirees and survivors. This year, the guides were written entirely in-house, saving money and enabling more accurate and expedited content, particularly critical with the state's fiscal situation and the corresponding affect on benefits. Staff took the existing multi-part rate charts for RMTs, which were previously only available by calling us or visiting a health fair, and devised a two-page chart for inclusion in the retiree guide.

GIC



Consultants

- ❖ Retiree Dental carrier procurement
- ❖ Plan audits
- ❖ Dependent Care Assistance Program carrier program
- ❖ Health care plan rate renewals
- ❖ Data warehouse



Lynn Ostrowski, Health Program Manager for Health New England, showed us materials for HNE's innovative ACE and Furlis asthma education program for children and their families.



COLLABORATING WITH OTHERS

GIC staff collaborates with a number of governmental and private organizations to improve quality care and contain costs.

Massachusetts Healthcare Purchaser Group (MHPG)

The GIC continues to be an active member of the Massachusetts Healthcare Purchaser Group (MHPG), an organization devoted to improving health care quality, increasing health providers' accountability, and controlling costs for purchasers. The MHPG includes a number of leading private and public health care purchasers, including the Massachusetts Division of Medical Assistance (the state's Medicaid agency), Verizon, General Electric, Raytheon and the Massachusetts Business Association. The MHPG analyzes and disseminates information on how HMOs in Massachusetts allocate premium dollars, represents purchasers' views to a variety of state agencies and boards, and monitors the health care industry on behalf of purchasers throughout the Commonwealth.

Associated Industries of Massachusetts -- Health Care Committee

Working with business leaders, health plans, and public sector representatives from across the Commonwealth, the GIC is an active member of the Associated Industries of Massachusetts' (AIM) health care committee, the state's

largest business organization. The health care committee meets regularly to monitor health-related legislation and discuss a variety of health policy issues. Guest speakers are often part of these forums, allowing the GIC to exchange ideas and information on a variety of topics, including regulatory matters, industry trends and new insurance products.

Massachusetts Health Data Consortium

As an institutional member of the Massachusetts Health Data Consortium (MHDC), the GIC works with the state's major private and public health care organizations to collect, analyze and disseminate health care information across a range of topics. More than just a data-focused organization, the MHDC sponsors an annual conference -- HealthMart -- which brings together industry leaders, policy makers and interested individuals to discuss a variety of health care issues, including cost containment strategies, quality of care initiatives and increased access to health care. In addition, the MHDC has taken a leadership role in establishing information technology standards and assisting the health care industry meet HIPAA requirements.

Massachusetts Coalition for the Prevention of Medical Errors

This broad coalition of health care providers, regulators, associations and academics produces best practices and protocols for the improvement of medical care in a number of areas.

Massachusetts Compassionate Care Coalition

The GIC has been an active member of the Massachusetts Compassionate Care



GIC's Executive Director, Dolores L. Mitchell served as moderator at the Mass Health Data Consortium's HealthMart. The panel discussed today's health market and was comprised of health plan and hospital CEOs and Wendy Warring, Commissioner of the Division of Medical Assistance.

COLLABORATING WITH OTHERS

Coalition (MCCC), since its founding in 1999. This advocacy organization is dedicated to improving the quality and the availability of compassionate end-of-life care. The MCCC comprises over 50 member organizations, including the Massachusetts Medical Society, Harvard Pilgrim Health Care, the Department of Public Health, and UMass Memorial Hospital.

Over the past several years, the MCCC has helped raise public awareness about hospice and other end-of-life care options, and helped educate health care professionals on pain management and other aspects of care giving.

New England Employee Benefits Council

To strengthen GIC's ability to stay informed of the rapid changes taking place in the health care market, the Commission participates in a number of events sponsored by the New England Employee Benefits Council (NEEBC). The NEEBC serves as a forum for discussion and informational exchange in the employee benefits field.

GIC

Enrollees

- ❖ By phone
- ❖ In person
- ❖ On the Internet
- ❖ *For Your Benefit* newsletter
- ❖ By e-mail

GIC RECOGNIZED FOR OUR EFFORTS

GIC Awarded "Best Benefit Practices"

The New England Employee Benefits Council (NEEBC), the nonprofit regional benefit association, bestowed on the GIC its 1999 "Best Benefits Practices" award for our Leapfrog Patient Safety initiative. The NEEBC recognizes employers who have demonstrated standards of excellence in employee benefits.

GIC Recognized for COMECC Participation

The GIC was recognized for supporting the Commonwealth of Massachusetts Employees Charitable Campaign (COMECC). One hundred percent of GIC's staff contributed to COMECC in 2002, supporting a variety of private, non-profit health, human services, and environmental organizations. The GIC was one of nineteen agencies realizing a 100% participation rate.



In recognition of the GIC's commitment to the cardiovascular health of Massachusetts state employees and retirees, Pfizer Inc., sponsor of the Boston Heart Party™, presented GIC staff with a plaque. (From left to right) The GIC's Paul Murphy, Supervisor of Operations, Nancy Bolduc, Director of Operations, and Judy Settana, Supervisor of the Public Information Unit, are pictured with Susan Donnelly of Pfizer.



Wilbur Kaiser sorts Benefit Decision Guides for state agencies.



Receptionist Melodie Pharms welcomes an enrollee to the GIC.

GETTING IT DONE

GIC

Enrollees

- ❖ Annual personalized benefit statement
- ❖ Benefit Decision Guides
- ❖ Commonwealth PPO scholarship
- ❖ Health fairs
- ❖ HMO Report Card

The accomplishments of the GIC would not be possible without our very lean, productive team. Twelve years ago the GIC had seventy-three total staff members comprised of fifty-one full-time, one part-time, twenty-one temporary employees, and two contract workers. The GIC now operates with only forty full-time, six part-time, twelve temporary employees, and four contract workers.

FINANCIAL MANAGEMENT DIVISION

The Financial Management Division prepares and maintains the financial and accounting records of the Commission. During FY02, the department paid out \$883 million in state and employees' funds for the Commonwealth's insurance programs. The Division also oversees the revenue collection process, which resulted in the crediting of \$185 million to the Commonwealth's General Fund during the fiscal year. This consisted of \$49 million in accounts receivable collections, \$34 million from cities and towns who participate in the program and \$102 million in revenue from the federal fringe benefit chargebacks. The Financial Management Division also prepares the Commission's budget and spending plan, and provides detailed data from these plans to the Commonwealth's Fiscal Affairs Division.

POLICY AND PROGRAM MANAGEMENT

The Policy and Program Management Division collects and analyzes data on plan performance and costs, researches new benefits and plan designs, monitors legislative developments, and oversees plan selection, program implementation and administration.

The department took advantage of a more competitive Long Term Disability (LTD) market to expand program benefits and, at the same time, significantly reduced monthly premiums. To reduce the state's costs for employee dental benefits, without sacrificing comprehensive benefits, Policy and Program Management staff crunched the numbers and recommended that the Commission switch from a fully insured dental plan to a self-insured plan. This recommendation resulted in a potential

savings to the Commonwealth of up to \$750,000 over the course of the three-year contract.

The Policy and Program Management team continued efforts to improve patient safety and increase enrollees' health care knowledge. Staff implemented a plan to provide incentives to health plans that demonstrate measurable increases in the percentage of patients admitted to hospitals that meet three key safety measures developed by the Leapfrog Group, a national coalition of large employers and government agencies committed to improving patient safety. In addition, staff negotiated with one of the HMOs to offer a web-based tool for GIC enrollees to conduct their own research on area hospitals. The on-line system enables enrollees to conduct condition or disease-specific comparisons of hospitals using a range of criteria, including the number of patients treated, mortality rates, unfavorable outcomes and average hospital charges.

ADMINISTRATIVE SERVICES

The Administrative Services Division supports Commission staff, Commonwealth agencies, and enrollees. The public information department services enrollees by phone, mail, and member visits. In FY02 the department assisted 43,000 members by phone, sent out 122,000 pieces of mail and saw over 2,100 members in person. The facilities department sends health and other GIC program supplies and GIC communications to agencies and enrollees. The agency's human resources department is also critical to the GIC's success. The department arranges for critical training in Administration initiatives and job skills development for GIC

employees, plays an integral role in annual enrollment, and developed, implemented, and manages the Commonwealth's DCAP program.

The Administrative Services Division continued its project to reduce the agency's rate of unanswered telephone calls and succeeded in decreasing the FY02 rate by 8.7% over FY01. It also installed more user-friendly telephone software to allow callers to leave messages with the different GIC departments and give retirees quicker access to information.

OPERATIONS AND SERVICES

The Operations and Services Division processes enrollment and coverage changes for insureds and resolves eligibility matters with the insurance carriers. The department also provides technical support to GIC Coordinators at 950 locations throughout the state. The Operations Department handled over 82,000 eligibility calls in FY02.

In FY02 the department streamlined life insurance claim payments by viewing insurance deductions online on the new HR/CMS payroll system. In the past, the GIC would mail out forms to agencies to verify that premium payments were up to date. This enhancement has reduced the number of days to pay out a life insurance claim from ten to five.

The Operations and Services Department also revised its monthly reports sent to agencies for discrepancy reconciliation purposes. The new report eliminated monthly mailings of voluminous reports (MIAR) to 950 agencies. The revised reports have reduced postage costs and staff time. Additionally, state agency staff no longer needs to pour through reams of data.

Operations staff worked closely with the new University of Massachusetts payroll system staff to develop interfaces with GIC's MAGIC system, similar to inter-

faces established with the HR/CMS system. The new interface allows UMass GIC Coordinators to enter insureds' GIC coverage on the MAGIC system at the agency level; in the past GIC staff entered the information. University of Massachusetts deductions and reconciliation are now on line and automated.

Through a joint effort, Operations and Systems staff worked with GIC's HMO plans to give them view only access to GIC's MAGIC system. The access allowed each plan to view insurance information for only their enrollees and the enrollees' dependents. This access allows HMO Plans to answer routine telephone inquiries from GIC insured's more efficiently rather than refer the caller to the GIC.

LEGAL SERVICES

The Legal Division provides a wide array of services, including contract drafting, negotiation and compliance; analyzing and monitoring health and other benefit policy issues and developments; and advising the Commissioners and staff of legislative changes in the benefits arena and their implications for the Commission's work. The Legal Services Division participated in a multi-disciplinary team to enhance retiree dental/vision benefits, establishing a retiree dental plan and a retiree discount component to its employee vision plan, run by Davis Vision, effective October 1, 2001.

Legal Counsel for the Commission also participated in internal and external activities relating to the Federal Health Insurance Portability and Accountability Act ("HIPAA") to ensure the agency's compliance with the privacy and security protections by the federal law's deadlines. As part of the Commission's Leapfrog initiative, counsel also worked with a variety of groups to ensure compliance with new patient safety data gathering for the Commission's enrollees, incorporating

GIC



The Industry

- ❖ Mass Healthcare Purchaser Group (MHPG)
- ❖ Massachusetts Health Data Consortium (MHDC)
- ❖ Leapfrog
- ❖ Massachusetts Compassionate Care Coalition



GETTING IT DONE



The Industry

- ❖ Associated Industries of Massachusetts (AIM)
- ❖ Massachusetts Coalition for the Prevention of Medical Errors
- ❖ New England Employee Benefits Council

patient safety performance standards into health plan contracts and monitoring health care provider compliance with those standards.

INFORMATION SYSTEMS AND TECHNOLOGY

The Information Systems and Technology Division manages and maintains all agency computer hardware and software. The division's data entry unit enters transactions and verifies the integrity of data on the system. In FY02 the department successfully completed systems implementations for the new retiree dental and Long Term Disability plans. The department also upgraded the HR/CMS payroll and MAGIC interface and also established a new interface with the University of Massachusetts payroll system.

In FY02, the department implemented a web-based data solution linked to the

industry's first web-based executive information system. This system made risk adjustment possible. The new system also enables GIC staff to model prospective benefit changes, analyze claims experience, and predict the financial impact of policy alternatives.

The department also linked GIC health carriers with the GIC's benefits management system, MAGIC. This roll out was instigated by the Commonwealth's Management for Results Initiative (MRI). Now GIC health plans have real-time access to their own plan enrollment for eligibility verification purposes, eliminating a substantial number of calls between the GIC and the carriers. The department also upgraded the dial-out connections to the GIC's pharmacy benefit manager to a web-based platform, reducing telecommunication costs.

The years ahead will be challenging for the GIC – the economy is in recession, state revenues are declining and health care premiums, after six or seven years of declining rates, have taken a leap upward. We find ourselves facing double digit increases but without some of the cost containment tools we had 12 years ago – managed care has been required to relinquish many of its tools – because of provider and consumer backlash. Consolidations, mergers and acquisitions among health plans have wiped out all but a handful of plans. Consolidations, mergers and acquisitions among providers have given them substantial leverage in demanding and getting rate increases from the surviving health plans. Pharmacy costs, radiology utilization and costs, and hospital costs are all rising. Federal budget decisions that result in lower reimbursements for Medicare and Medicaid have placed burdens on in-state employers to make up the shortfall. Technological advances, the aging population, and consumer demand are combining to push costs up. The challenges, then, for state government in general and the GIC in particular, are to figure out how to continue to provide the highest quality of health care and other benefits at the same time that costs both to the taxpayer and the enrollee are kept at reasonable levels.

- ❖ The GIC has already accepted this challenge and made some adjustments in the portion of costs paid by the users of the services. Co-pays and deductibles for a range of services have been increased for FY03.
- ❖ The GIC has proposed a program to increase the percentage of premium paid by the enrollee linked to salary levels to protect lower salaried workers from some of the impact of rising costs. This proposal was endorsed by Governor Swift but has not yet been adopted by the Legislature.
- ❖ We are reviewing a range of alternative plan changes being discussed in the marketplace, many of which involve a shift from defined benefits to defined contributions, and all of which involve patient information and education. Most of these

programs are new and few have any track record of success. We are monitoring these programs for possible consideration if health care inflation continues unabated.

- ❖ The GIC's enrollee communications will play a more vital role in the years to come. Our health care education and plan selection tools will complement our policy initiatives; better-educated health consumers will become even more critical to controlling costs.
- ❖ We have committed the agency to a vigorous program of support for patient safety improvement, primarily through our participation in the Leapfrog Group, a project sponsored by the National Business Round Table, and consisting of over 50 national corporations seeking safer hospital care. Massachusetts Leapfrog leaders include, in addition to the GIC, Fidelity, Fleet, Verizon, General Electric, Medicaid, and the Massachusetts Healthcare Purchaser Group. They are asking Massachusetts hospitals to report on and adopt computerized physician orders for pharmaceuticals, and the use of critical care specialists in intensive care units. They are also urging their own members to use hospitals that have substantial experience in high-risk procedures if they need to have one of those seven procedures performed.
- ❖ The GIC has invested considerable effort in studying risk adjustment alternatives to reward health plans for the relative risk they bear (i.e., to pay plans that have sicker members at a higher rate). Until the current statutory requirement that plans be paid on the basis of an equal percentage of the premium, such adjustments cannot be made, but the agency can implement such adjustment systems whenever the legislative change occurs.

The GIC will continue to work on improving quality care and containing costs for our enrollees, state agencies, and Massachusetts taxpayers. Thank you for supporting the GIC and our mission.

FINANCIAL REPORTS

GROUP INSURANCE COMMISSION STATEMENT OF EXPENDITURES FY 2002

DESCRIPTION	COMMONWEALTH	EMPLOYEES (EST)	TOTAL
Administration	\$639,544	\$0	\$639,544*
State Employees and Retirees' Basic Life Insurance	\$7,202,549	\$1,142,582	\$8,345,131
State Employees' Optional Life Insurance	\$0	\$17,974,328	\$17,974,328
State Employees' Health Insurance**	\$668,899,872	\$129,862,249	\$798,762,121
State Employees' Dental and Vision for Non-Union Employees	\$6,166,649	\$1,088,233	\$7,254,882
Long Term Disability for State Employees	\$0	\$10,194,833	\$10,194,833
Elderly Governmental Retirees' Health Insurance	\$1,109,591	\$106,422	\$1,216,013
Retired Municipal Teachers' Life Insurance	\$690,055	\$143,531	\$833,586
Retired Municipal Teachers' Health Insurance	\$32,858,124	\$5,267,718	\$38,125,842
Total	\$717,566,384	\$165,779,896	\$883,346,280

*Plus an additional \$689,939 from employees' trust funds and \$1,957,290 from rate stabilization reserves as shown on the next two statements.

**Medical and prescription drug co-payments and deductibles for FY02 totaled approximately \$70.8 million.

RATE STABILIZATION RESERVE STATEMENT

JULY 1, 2001 - JUNE 30, 2002

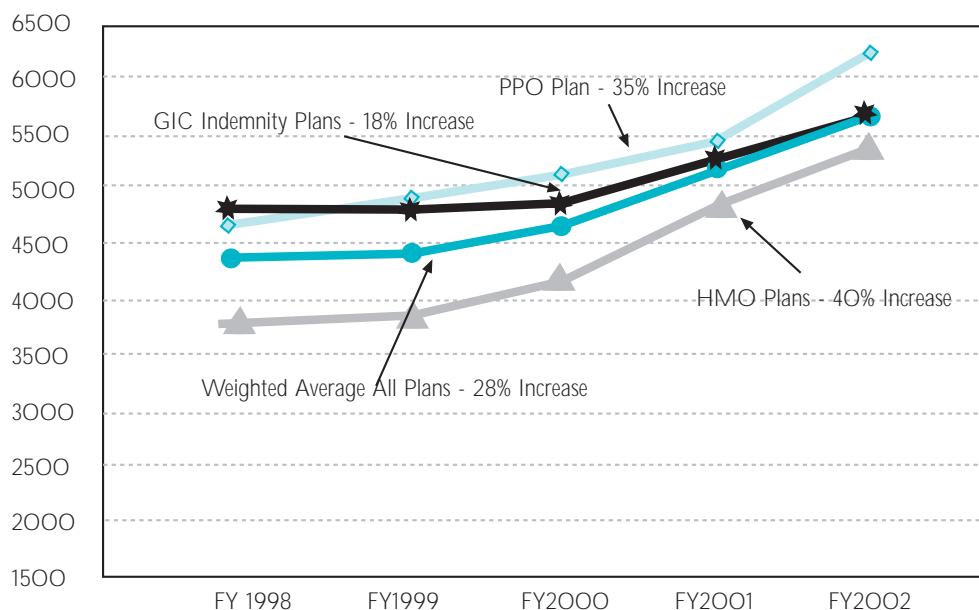
RESERVE	BALANCE	RECEIPTS	EXPENDITURES	BALANCE
	7/1/01	7/1/01-6/30/02	7/1/201-6/30/02	6/30/02
Basic Life	\$1,976,260.11	\$42,901.81	\$1,236,546.98	\$782,614.94
Optional Life	\$11,044,567.80	\$2,322,624.96	\$0.00	\$13,367,192.76
Employee Health	\$1,013,055.74	\$17,893.61	\$720,743.01	\$310,206.34
Elderly Governmental Retirees Health	\$1,085,370.99	\$21,842.84	\$276,177.80	\$831,036.03
Retired Municipal Teachers Life	\$86,656.27	\$2,203.84	\$0.00	\$88,860.11
Retired Municipal Teachers Health	\$23,261.68	\$591.59	\$0.00	\$23,853.27
TOTAL	\$15,229,172.59	\$2,408,058.65	\$2,233,467.79	\$15,403,763.45

EMPLOYEES' TRUST FUND STATEMENTS

STATE EMPLOYEES' TRUST FUND	
JULY 1, 2001 - JUNE 30, 2002	
BALANCE 7/1/2001	\$4,809,216.35
RECEIPTS	\$383,772.39
EXPENDITURES	(\$689,939.36)
BALANCE 6/30/2002	\$4,503,049.38
ELDERLY GOVERNMENTAL RETIREES' TRUST FUND	
JULY 1, 2001 - JUNE 30, 2002	
BALANCE 7/1/2001	\$503,184.80
RECEIPTS	\$11,747.55
EXPENDITURES	(\$82,569.01)
BALANCE 6/30/2002	\$432,363.34
RETIRED MUNICIPAL TEACHERS' TRUST FUND	
JULY 1, 2001 - JUNE 30, 2002	
BALANCE 7/1/2001	\$417.20
RECEIPTS	\$10.62
EXPENDITURES	\$0.00
BALANCE 6/30/2002	\$427.82

COST PER SUBSCRIBER (ENROLLEE) *

(Total State and Employee/Retiree Share)

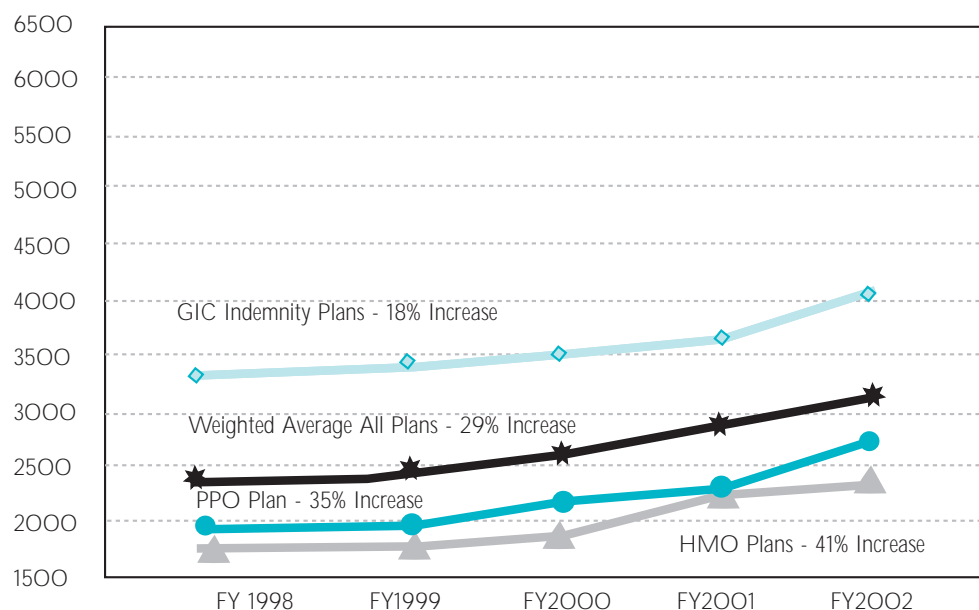


Data Source: Average Cost of Insurance Report.

*Does not include EGRs and RMTs.

COST PER CAPITA *

(Total State and Employee/Retiree Share)



Data Source: Average Cost of Insurance Report.

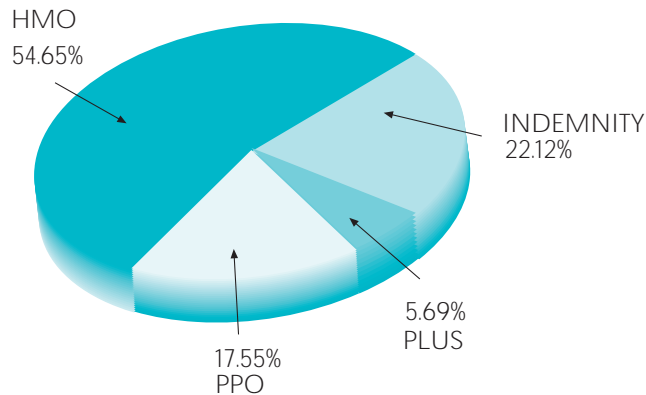
* Does not include EGRs and RMTs

HEALTH PLAN ENROLLMENT BY INSURED STATUS 2002					
	TOTAL ACTIVE*	TOTAL RETIREE	TOTAL SURVIVOR	TOTAL EGR&RMT	TOTAL ALL
Indemnity Plan	18,351	41,217	7,256	8,027	74,851
Indemnity Plan PLUS	4,722	364	30	0	5,116
Commonwealth PPO	14,560	911	95	0	15,566
Aetna U.S. Healthcare	218	8	2	5	233
CIGNA HealthCare	4,395	1,342	106	68	5,911
Fallon Community Health Plan	2,571	866	104	35	3,576
Harvard Pilgrim Health Care	18,965	3,334	308	381	22,988
Health New England	4,676	757	64	94	5,591
Neighborhood Health Plan	751	12	5	1	769
Tufts Health Plan	13,767	1,566	157	286	15,776
Total Indemnity Plan	23,073	41,581	7,286	8,027	79,967
Total PPO	14,560	911	95	0	15,566
Total HMOs	45,343	7,885	746	870	54,844
TOTAL-ALL	82,976	50,377	8,127	8,897	150,377
Indemnity Plan % Total	28%	83%	90%	90%	53%
PPO % Total	18%	2%	1%	0%	10%
HMO % Total	55%	16%	9%	10%	36%

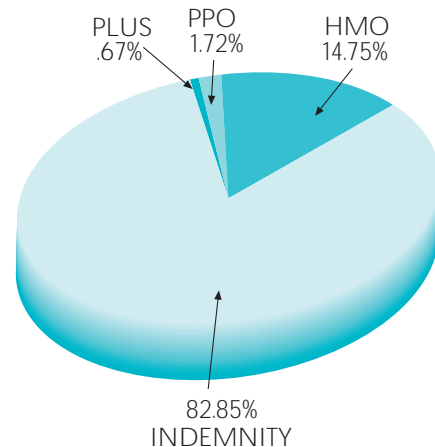
*Active enrollment includes enrollment figures for students over age 24.
Source: Pool I Age/Sex Composition Analysis, Fiscal Year 2002 and Pool II Age/Sex Composition Analysis, Fiscal Year 2002

ENROLLMENT BY PLAN FY-2002

ACTIVE EMPLOYEES



RETIREES



Data Source: FY02 Pool I and Pool II Age/Sex Reports.

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DOLORES L. MITCHELL, Executive Director

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